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Abstract and Key Results

- An enduring characteristic of extant literature on foreign operation modes is its discrete choice approach, where companies are assumed to choose one among a small number of distinctive alternatives.
- In this paper we use detailed information about the operations of six Norwegian companies in three key markets (China, UK and USA) as the basis for an exploration of the extent to which, and how and why, companies combine clearly different foreign operation modes. We examine their use of foreign operation mode combinations within given value activities as well as within given countries.
- The study reveals that companies tend to combine modes of operation; thereby producing unique foreign operation mode "packages" for given activities and/or countries, and that the packages are liable to be modified over time – providing a potentially important optional path for international expansion.
- Our data show considerable variation across cases; ranging from extensive use of mode combinations to a singular focus on a specific mode of operation. The study contributes to a refinement of our understanding of the path of internationalisation, and throws up a number of awkward theoretical questions about the process.

Key Words: modes of operation, mode combination, foreign operations, Norway, case study

Abbreviated Title: Mode Combinations and International Operations

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Introduction

Some international business scholars have recently highlighted the importance of mode combinations for companies in developing international business operations (Benito and Welch, 1994; Benito, Petersen and Welch, 2009; Petersen and Welch, 2002). In essence, these scholars argue that companies frequently use foreign operation modes (FOM) in combination rather than as singular entities in foreign market activity. These combinations may be employed at the outset of a foreign market entry, or they may evolve over time as one or more modes are added to singular mode use. The experience of the Finnish multinational Kone in Japan illustrates how mode addition over time, in response to evolving market circumstances and strategic priorities, can produce quite sophisticated mode packages (Benito et al., 2009). Starting with exporting, eventually Kone moved on to a broad operation mode package in its relationship with Toshiba that included an equity share in a separate company, licensing, technical and purchasing cooperation, marketing cooperation in China, and seats on each other's boards.

While it is evident that companies sometimes use mode combinations in international operations, there has been an absence of research that specifically addresses this phenomenon. In particular, we know little about how common their use is, and whether they are temporal or part of a continuing approach to international operations. It is timely, therefore, that empirical research be undertaken to answer this question. Is the reality so pervasive that not taking account of the phenomenon diminishes existing theories and empirical research in international business? In this article we report on a study that addresses this major gap in international business research. We also address some of the theoretical questions and ramifications of the mode combination reality.

Seemingly, one of the reasons for the lack of empirical research in this area is the difficulty of obtaining credible responses from companies on their use of modes in combination – particularly over time. However, the study reported in this article indicates that companies do have a consciousness of the concept of mode combinations, and of the way they might be arrayed along its value chain.

In this paper we use detailed information about the operations of six Norwegian companies in three key markets (China, the UK and USA) as the basis for an exploration of the extent to which, and how and why, companies combine distinctly different foreign operation modes. We examine their use of foreign operation mode combinations within given value activities as well as within given countries. The study reveals that companies tend to combine modes of operation; thereby producing unique foreign operation mode "packages" for given activities and/or countries. Our data show considerable variation across cases; ranging from extensive use of mode combinations to a singular focus on a specific mode of operation. We contribute to the literature on foreign operation modes both by empirically exploring the nature and extent of mode combination activity by a sample of internationalised companies, and by extending the theoretical foundation of mode combinations in a longitudinal context. The study inevitably leads back to a theoretical re-questioning of the meaning of the foreign operation mode concept and what mode change means. We also confront the question of why mode combinations exist. As far as we know, this study is the first that has systematically looked at mode combinations at a disaggregated value chain level.

Foreign operation modes and mode combinations

Companies' choice of foreign operation modes has been a core subject of international business studies basically from its beginning (Hymer, 1960 [1976]; Root, 1964). A half-century of research has brought us a set of established perspectives on companies' foreign operation mode choices, notably the economics based approaches of internalization and transaction cost theories (Anderson and Gatignon, 1986; Buckley and Casson, 1976; Hennart, 1982), evolutionary and resource based approaches (Andersen, 1997; Kogut and Zander, 1993; Madhok, 1997), institutional approaches (Kostova and Zaheer, 1999; Meyer and Peng, 2005), and process models based on learning and decision behavior theories (Johanson and Vahlne, 1977, 2009).

Alongside conceptual developments there has also been a surge of empirical studies, especially from the mid-1980s when research templates emerged through the ground-breaking studies by Davidson and McFetridge (1985), Caves and Mehra (1986), Anderson and Coughlan (1987), Gatignon and Anderson (1988), Hennart (1988) and Kogut and Singh (1988); see also Kogut (2001). Several overview articles (Brouthers and Hennart, 2007; Canabal and White, 2008) and meta-analyses (Morschett et al., 2010; Tihanyi et al., 2005; Zhao et al., 2004) have been published recently, indicating that this has become a mature field of research.

This research has without much doubt been successful in improving our understanding of companies' foreign operation mode choices and their implications, but as pointed out by Petersen et al. (2008) the bulk of research has predominantly examined the possible effects of a large range of explanatory factors (independent variables) on foreign operation mode choice. However, an enduring characteristic of that research is that the dependent variable itself – foreign operation modes – has barely been discussed. Studies have typically treated foreign operation modes as choices among a restricted set of well-specified discrete alternatives; e.g. the choice between contractual and equity-based types of operation modes, or that between partly owned and fully owned operations. There is anecdotal evidence for a "messier" reality (Benito et al. 2009; Clark et al. 1997; Petersen and Welch, 2002; Welch et al., 2007), with companies using many different modes at the same time, and even concurrently for the same type of activity in a given location, but the systematic mapping of mode diversity and mode combinations has only just begun (Asmussen et al. 2009; Hashai et al. 2010).

A key issue when researching mode combinations is to clarify the different versions of mode combinations that might be in use (Petersen and Welch, 2002; Welch et al., 2007). For example, there could be:

- Mode combinations at different points in the value chain in a foreign market, such as when a wholly-owned production subsidiary is supported by franchising at the marketing level;
- Mode combinations at the same point in the value chain, when sales in a foreign market are handled both by a sales subsidiary and an independent distributor: the sales subsidiary might be used to target large customers while the distributor handles

disparate smaller customers; or the sales subsidiary handles sales in one geographical region of a country whereas other regions are the responsibility of one or more distributors;

- Mode combinations that spread across activities in the same foreign market – the question then is to what extent such mode arrangements can be validly described as ‘in combination’.[1] If the organizational arrangements are separate, and there is little if any connection or information sharing between the different entities driving activity in the foreign market, it is difficult to argue that mode combination exists in the foreign market in any real business sense, apart from an overall strategic perspective at company headquarters in another country.

Are mode combinations anomalies? The viewpoint of received theories

Received theories of foreign operation mode choices – or entry mode choice, as these decisions are usually (and often incorrectly) referred to – typically view such decisions as discrete as well as discriminate: i.e. at a given decision point (which could be at entry or later) companies choose one among several alternative ways of organizing their operations in a foreign market – the mode of operation – and the use of that mode is normally assumed to exclude the concurrent use of other modes.

Some conceptualizations tend to be static; thereby emphasizing the initial point of entry and, if at all, projecting a continuation of the selected mode over the relevant time horizon. Some take a more dynamic approach and accentuate (or at least recognize) the conditions under which changes of foreign operation modes might be expected. Transaction cost theory and the resource-based and institutional approaches have tended to be on the static end of a static-dynamic continuum, whereas internationalization process (IP) theory has been on the other end. While their key explanatory variables and mechanisms differ,[2] the former

[1] For example, divisions of the Norwegian multinational Norsk Hydro developed operations in India independently of each other – with limited utilisation of the others’ experiences (Tomassen et al., 1998).

[2] Transaction cost theory focus on safeguarding specific assets against opportunistic actions; resource-based theory emphasizes the appropriation of rents generated by the possession of valuable and unique resources and capabilities; institutional theory emphasizes the (structural and behavioral) adaptation to external demands, regulations, and norms.

approaches have in common a focus on static (but typically long-term) discrete choices, and which consequently may seem to provide limited opportunities for mixing different FOMs.[3]

The dynamic approach offered by internationalization process theory could perhaps be seen as more "fluid" and hence as more amenable to mode combinations, and the case study approach favoured by many IP scholars often produces rich narratives that include descriptions of mode combinations, mixes and packages, but most studies have actually focused on the transition from one (main) mode to another; for example how an entrant firm's gradual acquisition of foreign market knowledge and/or development of local networks reduce perceived market risk and uncertainty, which in turn induces a switch from a low risk and commitment mode (e.g. a sales agent) to higher commitment modes (e.g. a wholly-owned sales and marketing subsidiary). Hence, the internationalization process approach is also rather silent about how mode combinations can be explained.

Are mode combinations just anomalies? There are (at least) four important perspectives on the puzzle apparently posed by the existence of mode combinations.

One view is that mode combinations are mainly due to the ways decision-making unfolds in real-life organizations (cf. Cyert and March, 1963; Simon, 1978), i.e. decisions are made in an imperfectly coordinated manner by different people with limited information and various cognitive constraints and mental processing abilities. Sub-optimalities (and at times downright errors) will hence necessarily arise. Since all established theories of FOM choice recognize the behavioural theory of the firm as the fundamental view of organizational decision-making, mode combinations could arguably be dealt with as simply transitory irregularities which would be sorted out over time; either through decision-makers' choice and intervention or, more brutally, by the elimination of inefficient businesses and governance structures that takes place through market selection processes.

Another perspective is that mode combinations are mainly due to rigidities ("switching costs"), i.e. the challenges of changing modes in a seamless, fluid manner; see Benito,

[3] A distinct contribution, however, is that of Hennart (1993) who argues that mixed methods of organization are commonplace (i.e. the simultaneous use of rules as well as prices), and that activities (transactions) are seldom carried out in the extreme (caricatures) of either bureaucracies or spot markets. Nevertheless, it must be noted that Hennart's thesis is that real-life solutions to the organization-problem – say, the choice of a foreign operation method – typically involve combinations ("mixes") of different organization methods, not that different FOMs are used simultaneously. Hence, his approach is also rooted in a discrete-choice perspective.

Pedersen and Petersen (2005) and Petersen, Welch and Benito (2010). These could be externally imposed, such as in the case of legal constraints, or be internal, for example the (psychological) effect of sunk costs. Hence, several modes are used side-by-side for some time, even though the companies acknowledge that this is not a first-best solution. It becomes the price (sub-optimality) one has to pay to carry out one's business.

A third view regards mode combinations as appropriate (rational) organizational responses to real-life conditions, especially variation and complexity, which render specific modes too unsophisticated to cope with all important contingencies: one size simply does not fit all. Hence, multiple modes are required in order to carry out operations successfully (Petersen and Welch, 2002).

The final view is that mode combinations are mainly a superfluous phenomenon, i.e. even though it is empirically valid (it can be observed) it should be seen as a researcher induced construction. In particular, transaction cost theory takes the transaction as the unit of analysis, and at that level only one discrete mode (governance structure) can exist, i.e. for a given transaction. Mode combinations just reflect the fact that companies make many transactions, which in turn lead to a proliferation of modes.

The counter-argument is however that because there are fixed costs of governance, companies must devise governance structures that are sufficiently broad (or flexible) to handle many (and somewhat varied) transactions. Thus, in real-life situations companies have to balance the benefits of "governance structure optimality" at the transaction level against the complexity and organizational (decision-making) costs incurred (at the organization level) by managing many different governance structures and continuously evaluating and changing them, if needed. A likely, pragmatic compromise for companies is therefore to identify robust categories of sufficiently similar sets of transactions, such as the various value chain activities – i.e. primary activities such as production, logistics, marketing & sales, and support activities like IT, HRM, procurement, finance etc. – and then seek out suitable ways of organizing them.

Overall then, it seems that mode combinations are not necessarily incompatible with the established set of theories about FOM choices (and use and change). It is clear nevertheless that the phenomenon has largely been overlooked; "state-of-the-art" is silent about it and it remains unclear what existing theories could offer towards explaining it.

Why mode combinations?

From a business perspective, mode combinations could seem to be a rational, reasonable response to the diversity of pressures and opportunities faced by companies in international business operations. In many situations mode combinations are more than peripheral add-ons to a mainstream or primary mode. They can entail a strong strategic component, as a company seeks to achieve important goals, to obtain tangible, significant returns, from involvement in foreign markets.

In some instances the additional mode/s in a package may be about generating extra revenue from a given foreign operation – as noted in the use of licensing alongside foreign direct investment and projects (Welch et al., 2007). In many cases, though, additional modes are about delivering control, assuring outcomes. There are examples of companies responding to control concerns by adding modes that are deemed to deliver control in managerial, marketing, financial and/or technological senses. Such concerns may have arisen from experience in a particular foreign market, or may be of a more general nature – arising from experience in many foreign markets. It is not unusual for franchising companies to engage in direct franchising at the outset of international activity, but over time to find the managerial demands of such an approach to be onerous, resulting in the adoption of solutions like master licensing, joint ventures or wholly owned subsidiaries in relevant foreign markets as the base to manage foreign franchising activities (Welch et al., 2007). In such general cases, once recognised by management, it is likely that mode packages will be assembled at the outset to deal with a certain anticipated issue. For example, leakage of technology concerns might lead to licensing of foreign outsourcing contractees; or foreign partner performance problems could result in direct foreign marketing involvement to support agency appointments. In cases where experience in specific foreign markets exposes unanticipated problems, and control solutions are sought, this may lead to mode additions, creating mode combinations over time, such as in establishing a sales subsidiary to work alongside an existing distributor, or a purchasing unit to operate alongside one or more foreign subcontractors (Petersen et al., 2001).

The above examples illustrate the fact that mode combinations could usefully be viewed in an evolutionary context, from a dynamic perspective – that a mode combination may not be the outcome of a distinct decision at a given point in time, but develop over time as a result of changing circumstances or changing managerial perception of various foreign markets or foreign relationships. Learning is likely to be significant component (driver) of mode combination adoption or change (Barnett and Burgelman, 1996). Indeed, mode combinations can be viewed as fluid, adaptable instruments of foreign market activity. Similarly, mode combinations may initially develop as an emergent strategy (Mintzberg, 1978), but become an intended (deliberate) and more consistent strategy driving international operations.

Methods and data

Given the almost non-existent prior research, we considered an exploratory study in the form of a limited number of company cases as an appropriate initial step in investigating the phenomenon of mode combinations and packages. Eisenhardt (1989, 548- 9) has argued that case study research is especially ”appropriate in the early stages of research on a topic, or research areas for which existing theory seems inadequate” (see also Patton, 1990).

In our study, the exploration in depth that was required, especially given the effort to break down the value chains of the companies investigated, by country, and to search for mode combinations within these categories, meant that a case study approach was particularly appropriate. As well, the depth and detail were sought for an extended period – from 2004 to 2008 – in an effort to plot longitudinal patterns of mode combination development. Case study approaches are particularly useful when trying to follow longitudinal patterns and processes of some complexity (Eisenhardt, 1989; Patton, 1990).

Case study research has long been regarded as a suitable research approach when the focus of research is on “how” and “why” questions (Yin, 2003; Ghauri, 2004), as in our study, which explores the extent to which, and how and why, companies combine distinctly different foreign operation modes. In essence, we were seeking to understand the nature of the mode combination phenomenon, and to explain its role in company internationalisation through case study methodology.

The choice of a multiple case methodology, rather than a single case approach, was made in order to ascertain not only whether the companies under investigation were using mode combinations, but also the range and extent of their use: to see whether there were different approaches to the use of mode combinations over time, and if so why. Pauwels and

Matthyssens (2004, 129) maintain that a multiple case approach is pertinent when ”variance and divergence of the data” are sought.

The case companies were chosen for their accessibility and for the extent and depth of their international operations – i.e. purposeful sampling was undertaken. Patton (1990, 169) has argued that ”the logic and power of purposeful sampling lies in selecting *information-rich* cases for study in depth”. Similarly, Eisenhardt (1989, 537) points out that in choosing cases ”random selection is neither necessary, nor even preferable.…the goal of theoretical sampling is to choose cases which are likely to replicate or extend the emergent theory” (see also Yin, 2003).

In a methodological sense, our approach to the investigation was somewhat unusual. While exploratory, it was also theory testing. Although there is some debate around the idea of cases being used for theory testing purposes, from a critical realist perspective it has been argued that case studies are particularly suited to theory testing, and there is growing use of this approach in research reported in international business, international management, and industrial marketing journals (Piekkari et al., 2009; Piekkari et al., 2010). We sought to demonstrate empirically and specifically that mode combinations were used in developing international operations by a sample of internationalised companies, while at the same time investigating the nature of this phenomenon – down to the hitherto unexplored disaggregated value chain level. From this exercise we were seeking to extend the empirical and conceptual basis of mode combinations in a longitudinal setting (Benito et al., 2009).

Target companies for the study were established companies which had achieved relatively advanced stages of internationalization. Companies in the early phases of their internationalization tend to operate in few countries – typically nearby – and often keep to one or just a few modes of operation in foreign locations, such as exporting or contract-based relations with suppliers and distributors (Johansen and Vahlne, 1977). As their internationalization process advances, entries into more locations are made and additional modes of operation are likely to be used (Luostarinen, 1979; Welch and Luostarinen, 1988). Hence, a certain degree and diversity of company internationalization is needed before substantive operation mode combinations might be expected to emerge.

After initial screening and making attempts at getting contact, six Norwegian companies were chosen for this study. The final selection of companies was made mainly based on their willingness to take part in the study, since access to data would be all-important. In each company, at least one key informant was identified and contacted; in two case companies, several key informants were interviewed.

In all, ten key informants were interviewed. Key informants were typically middle managers, usually in operations related positions such as supply chain management or marketing. In two companies, the key informants were members of the top management team; the company's managing director in one case, and the business control director in another. Data collection through interviews and other communication with key informants (e.g. follow-up e-mails) was carried out in the latter part of 2009.

To facilitate collection of data and ensure comparability of information across cases, a standardized, structured interview guide was used as part of the interviews. The interview guide was developed with other researchers as part of a major international research initiative looking into the configuration and dynamics of corporate internationalization.

A brief description of the six company cases

Information about the six case companies is provided in table 1. Although they are all highly dependent on their activities outside Norway, the companies comprise a fairly varied set in terms of other characteristics.

In terms of corporate governance structure, most companies are either independent public companies or parts (Eltek Valere and Wilhemsen Ships Services) of corporate groups, which are listed on the Oslo Stock Exchange. As a private company, Jotun stands out; even though it is partly owned by the large Norwegian conglomerate Orkla ASA, it remains much in control of the Gleditsch family – the founders of the company – both at the Board of Directors level and in daily management.

***** Table 1 about here *****

In terms of industry, they represent six distinct sectors; all of which are key sectors in the Norwegian economy and from which a substantial portion of Norwegian outward foreign direct investment originates (Benito, 2010).

Regarding size, the companies range from the medium-sized (Eltek Valere and REC Group), to medium to large sized (Jotun, Marine Harvest, and Wilhemsen Ships Services), to one (in a Norwegian context) very large-sized company (Statoil).

As noted, they are all highly internationalized with long experience from exporting activities and extensive operations – such as manufacturing, and in some cases even R&D – in foreign locations. It is noteworthy that, in 2008, 5 out of the 6 companies have 50 percent or more of their employees outside Norway and two companies (Eltek Valere and Wilhemsen Ships Services) have foreign employment ratios exceeding 90 percent. Only Statoil still has a majority of Norwegian staff, which reflects its historical focus on the North Sea oil and gas sector.

Case analysis

In this project, we focused on three key locations outside Norway; China, the UK and USA.[4] Also, the study was limited to the period 2004 to 2008, and as such it does not aim to provide the complete picture of the internationalization of these six companies. Nevertheless, from table 2 it is clear that for most companies their operations comprise a complete (or close to complete) set of value activities,[5] and this accentuates the importance of the selected locations. In 2008, only Eltek Valere had a distinctly narrower range of activities abroad, with an emphasis on primary activities; and choosing to keep all supporting activities in Norway.

***** Table 2 about here *****

The case companies differ somewhat regarding what foreign operation modes they commonly use, although all of them used wholly owned subsidiaries (WOS) in at least one (but typically many more) activity-location combination, and most of them also used contracts quite extensively. As indicated in tables 1 and 2, equity joint ventures (EJV) were slightly less common: only Jotun, Statoil, and Wilhemsen Ships Service used EJVs in the focal countries.

What about mode combinations? Table 2 gives a first indication of the prevalence of mode combinations. A cursory look at the data indicates that apart from Marine Harvest,

[4] In one case (Marine Harvest), Chile replaced USA as the key American location.

[5] The value activities performed by the companies in the three chosen locations were mapped using the conventional classification of activities into (i) primary activities such as production, logistics and marketing, and (ii) support activities like procurement, IT, finance and accounting, R&D, and HRM.

which only uses WOS in its foreign operations, various kinds of mode combinations are obviously quite common among the studied companies. Some companies seemingly combine operation modes or use various FOMs concurrently to a great extent. Among the case companies, Wilhemsen Ships Service defines one extreme by using several different FOMs in every type of activity that the company engages in abroad, but the use of different FOMs within and across foreign activities is also widespread in Jotun, and occurs, but to a lesser extent, in REC Group, Statoil and Eltek Valere as well.

In order to examine more closely the extent to which, and how modes are used concurrently and/or in combination, we distinguish between (i) FOM combinations within given value activities (e.g. production, marketing or R&D), i.e. to what extent a particular activity is governed in just one or more (different) ways across locations; (ii) the occurrence of FOM combinations within a given country, i.e. the location-specific scope of FOMs; and, finally, (iii) the prevalence of FOM packages within a given activity-location set, e.g. production in USA.

***** Table 3 about here *****

The two first categories capture FOM heterogeneity that often essentially is due to different circumstances, either across activities or across locations. For example, a company may perform a range of activities in a country, and each of the activities may call for different ways of organizing due to different levels of, *inter alia*, complexity, uncertainty, scale, and specific assets; as pointed out in received theory (Anderson and Gatignon, 1986; Brouthers and Hennart, 2007; Madhok, 1997).

A case in point is REC Group, which in 2008 had in-house operations as well as a non-equity strategic alliance and various contracts in the USA. However, for the most part each distinct value activity was organized in separate and different FOMs. Support activities were undertaken in-house, apart from IT, which was outsourced, and R&D for which a strategic alliance had been added that year to complemented in-house activities. Production in the USA was also undertaken in-house, but other primary activities were subcontracted (logistics) or taken care of by distributors (sales and after sales services). Our data actually suggest that such FOM packages for given countries are commonplace among the studied companies. Only Marine Harvest stands markedly out with its singular (in-house) FOM policy.

The last category (FOM combinations (or packages) within a given activity-location set) pose more of a challenge to conventional reasoning about FOM choices: Observing that companies are organizing a given activity in multiple ways in the same location would seem to be an anomaly from a discrete choice perspective. Nevertheless, as shown in table 3, four of the companies (Jotun, REC Group, Statoil and Wilhemsen Ships Service) reported that mode combinations were used even for specific activity-location sets. Among these companies, Wilhemsen Ships Service represents a very interesting – although somewhat extreme – case, as its service provision in all three focal markets combined WOSs, subcontracting, and agents. In addition, the company also used equity joint ventures in China, and just to add to the already highly complex package of modes; the local inputs were commonly combined with sourcing from its Norwegian parent company. In contrast, the mode activity-location set combinations of Jotun, REC Group and Statoil were simpler and more straightforward; typically the combination of WOSs and EJVs, or a WOS and some kind of contract.

Are mode combinations transitory phenomena? As pointed out earlier, mode combinations could be the result of organizational rigidities, especially in the realm of decision-making, which may result in some degree of sub-optimality in the ways a company organizes its foreign activities. Since there are penalties associated with sub-optimal arrangements (see Petersen et al., 2010), for example in the form of higher costs, more cumbersome routines, and/or avoidable haggling with business partners, one would expect, however, that over time companies seek to correct them by simplifying their mode combinations, shedding redundant modes, and generally striving to streamline their foreign operations. Interestingly, our data from the case companies point to the opposite, namely that the occurrence of mode combinations has increased rather than diminished over the time period covered in the study (see table 3). Nevertheless, this is by no means conclusive evidence of a generally higher prevalence of mode packages over time; we have only studied a small number of companies in selected locations and it is obviously hard to assure *ceteris paribus* conditions in a study like ours.

When asked about their reasons for combining modes, three motives stood out (see table 4): (1) task or product differentiation, i.e. that fine(r)-slicing of activities unearths variation regarding, *inter alia*, complexity, uncertainty, scale, and specific assets, which call for different ways of organizing the activities; (2) political demands, such as when local governments make joint venture agreements a prerequisite for entry into a country/market; and (3) the adaptation to local market conditions requires taking up additional modes of operations such as getting access to local customers by having a local agent or distributor and at the same time establishing one's own marketing unit that oversees the overall sales and marketing effort.

Reasons (1) and (3) also point, as mentioned earlier, to evolutionary patterns behind the proliferation of FOM combinations. If successful, companies tend to further develop their operations in a country in various ways, including expanding production volumes (often relying on local partners for the added production capacity), performing a wider set of value activities locally, and adding new products to their market offer.

***** Table 4 about here *****

Discussion and summary

Our study of six Norwegian companies reveals the prevalence of mode combinations, but the data also show significant variation among the companies regarding the extent to which, and how and why, they use more than one mode when operating in foreign countries.

Examining in detail their operations in three key markets – China, UK and USA – the case companies display the whole array of possibilities; from persistently sticking to one "favourite" FOM (wholly owned subsidiaries in the case of Marine Harvest), to extensive mode combinations within and across countries, even when carrying out similar activities in the same country, as demonstrated by the Wilhemsen Ships Service case.

Why do companies combine FOMs? Our study suggests that internal as well as external factors are at play. Governmental restrictions and adaption to local regulations and market demands constitute important external drivers in the rise of FOM combinations. Turning to internal factors, the key consideration is differentiation. Differences within and across activities in terms of the control needed to manage them successfully emerges as an important concern; as evidenced by the widespread tendency among the studied companies to establish wholly owned units alongside cooperative and contractual operation modes that rely on (local) business partners. Sometimes the wholly owned unit represents the primary operation mode in a country, with contractual linkages to local partners taking a more secondary role, for example in the form of subcontracting some of the production. Eltek

Valere's operations in China illustrate such a set-up. Jotun also seems to put wholly owned subsidiaries at the centre of their activities in key countries, with joint ventures and various contracts added-on when needed in particular circumstances. In contrast, Wilhemsen Ships Service relies heavily on local service providers, with their wholly owned subsidiaries mainly taking supervisory and coordinating roles. In general, our study demonstrated the benefit of considering mode decisions at a disaggregated value chain level: showing that explanations may vary across foreign activity, combination and context, leading to an unbundled, more nuanced understanding of mode decision-making.

Given the relative profusion of FOM combinations uncovered in this study, it is reasonable to ask why so few previous studies have taken serious notice of this phenomenon. A likely reason is that mode combinations fall outside the established templates for conceptualizing foreign operation modes and doing research about how companies make choices about their international operations. Researchers have tended to simplify the complicated – even "messy" – realities of international business by sticking to conventional classificatory schemes, such as the "equity/non-equity" distinction, or the "market versus hierarchy" and "make or buy" dichotomies. By disregarding packages, secondary modes, add-ons, etc., which could possibly be dismissed as "noise" anyway, researchers have been able to stick to the relative comfort of mainstream theories and frameworks instead of directly challenging them. Although it is easy to see the attraction of conventionalism, taking that route further is likely to only give evermore marginal insights into the real nature of what is one of the key topics in international business scholarship. Also, it is a risky route since the findings become so heavily dependent on researchers' choices regarding what goes into their pre-determined categories, and what does not.

Another possible reason is that mode combinations might be seen as paradigmatic anomalies, which could strongly challenge the existing theoretical apparatus, yet not offer a clear and well-developed alternative. However, we have neither wish nor reason to be iconoclasts. Our analysis suggests that FOM combinations are not necessarily incompatible with existing theories, although they will have to be further developed. Again, an open-minded approach which accepts the full range of real-world observations would seem to be a sensible way to gain more knowledge and move the field forward.

An important finding in our study was that the use of mode combinations in general increased over the period examined, 2004 to 2008. As noted above, this was in response to a mix of internal and external forces. It was apparent that once involvement in the foreign market was established, in whatever form, there was a tendency for mode combination use to evolve, except in the case of one company. Mode combination adjustments allowed companies to respond, to adapt to the experience that unfolded for them in the foreign market. However, across the range of mode combination activity by the companies, there was considerable variation, indicating a mixture of inertia and learning in mode development processes – in line with evolutionary explanations of company strategy and organizational development (Barnett and Burgelman, 1996; Doz, 1996; Inkpen and Currall, 2004; Lewin and Volberda, 1999). Such approaches offer scope for theoretical development that incorporates the results of this study and more generally the expanded set of ideas around mode evolution rather than mode replacement.

Formal mode combinations and their changes do not tell the full story about whether and how mode combinations are evolving. There may be other less formal, less obvious changes occurring, such as personnel changes, which may contribute in important ways to the existing mode set, and to mode performance, even acting as alternative forms of mode combination development (Benito et al., 2009). However, in this study, we did not seek to identify non-formal types of mode combination evolution. In general, it is apparent that many companies are undertaking mode combination activity as an integral part of their international activities, they are not simply a transitory phenomenon, and such activity may be of significance for the performance of their international operations – overall as well as in specific countries. We are on the cusp of a far more meaningful understanding of how modes evolve and contribute to company internationalization, and what that internationalization entails.

This study is based on six company cases and covers only a limited period of time. While the findings are interesting, they are preliminary; we have barely scratched the surface of the mode combination phenomenon. Much remains to be done regarding further conceptual clarification and development of the ideas presented here. For example, we have yet to explore thoroughly how mode combination development contributes to major mode changes (Benito et al. 2009). In addition, there has been limited investigation of the nature of the connections between modes in combination (Petersen and Welch, 2002). Nevertheless, the results obtained from our study are promising in pointing to how the study of foreign operation modes might be enhanced. It demonstrates the research potential in allowing respondents to outline whether and how mode combinations might have been employed at the outset, and how they might have altered over time. Perhaps one of the most important outcomes of this study, from a future research perspective, was that company respondents understood and could identify the mode combinations that they had used, even at a disaggregated value chain level. Such mode combination consciousness stands in contrast to the reluctance of IB researchers to take up the challenge of mode combinations.

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Table 1: Information about the six case companies.

	Company A: Eltek Valere	Company B: Jotun	Company C: Marine Harvest	Company E: REC Group	Company F: Statoil	Company G: Wilhemsen Ships Service
Corporate governance	Part of Eltek ASA, a public company listed on the Oslo Stock Exchange	Private company with Orkla ASA and the Gleditsch family as main owners	Widely held stock company, listed on Oslo Stock Exchange (as Pan Fish AS) since 1997	Widely held stock company, listed on Oslo Stock Exchange since 2006	Partly state-owned, listed on Oslo Stock Exchange since 2001	Part of Wilh. Wilhemsen Group, a public company listed on the Oslo Stock Exchange
Industry	Telecommunications	Chemical	Sea food	Renewable energy	Petroleum	Shipping services
Business areas and activities	Energy systems developer	Production and distribution of paints and coatings	Fish farming, processing and distribution of sea food	Vertically integrated solar technology producer	Oil and natural gas exploration, production and distribution	Broad range of port and onboard services in the maritime sector
Founding year	1971	1926	1965, but today's company a result of mergers in the 2000s	1996	1972	2005, but history dating back to 1946 (Unitor Ship Services)
Internationalization experience	- 1st export in 1981 - Operated in 26 countries in 2008 - 92% foreign employment ratio (2008)	- 1st export in 1951 - Operated in 80 countries in 2008 - 85% foreign employment ratio (2008)	- 1st foreign production site in 1975 (Chile) - Operated in 22 countries in 2008 - 86% foreign employment ratio (2008)	- 1st export in 1996 - Operated in 8 countries in 2008 - 50% foreign employment ratio (2008)	- 1st export in 1989 - Operated in 40 countries in 2008 - 39% foreign employment ratio (2008)	- 1st export in 1950 - Operated in 72 countries in 2008 - 93% foreign employment ratio (2008)
Size	Medium sized: 2,200 employees and total sales 654 million USD (2008)	Medium to large sized: 6,800 employees and total sales 1.9 billion USD (2008)	Medium to large sized: 7,000 employees and total sales 2.4 billion USD (2008)	Medium sized: 2,400 employees and total sales 1.5 billion USD (2008)	Very large: 30,000 employees and total sales 117 billion USD (2008)	Medium to large sized: 4,500 employees and total sales 615 million USD (2008)
FOM profile	WOS and contracts, sometimes the use of both in the same country, but for different activities	Extensive use of WOS, sometimes in combination with JV (China) or contracts (USA)	Exclusive use of WOS, no FOM combination	Core activities (production, R&D) in WOS, but otherwise much use of contracts, sometimes in combination	Emphasis on equity-based FOMs, sometimes mixes of WOS and JVs	Considerable use of mode mixes and combinations, especially in core activities

Table 2: Summary of activities performed in at least one of three key foreign locations (i.e. China, UK and/or USA) in 2008 by the case companies.

Activities:	Company A: Eltek Valere	Company B: Jotun	Company C: Marine Harvest*	Company E: REC Group	Company F: Statoil	Company G: Wilhemsen Ships Service
Production	Yes, 1 FOM type	Yes, 2 FOM types	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 2 FOM types	Yes, 3 FOM types
Logistics	Yes, 1 FOM type	Yes, 3 FOM types	No	Yes, 1 FOM type	Yes, 2 FOM types	Yes, 3 FOM types
Marketing and sales	Yes, 1 FOM type	Yes, 3 FOM types	Yes, 1 FOM type	Yes, 2 FOM types	Yes, 2 FOM types	Yes, 2 FOM types
After sales services	No	Yes, 3 FOM types	No	Yes, 1 FOM type	No	Yes, 2 FOM types
R&D	No	Yes, 1 FOM type	No	Yes, 2 FOM types	Yes, 1 FOM type	No
Procurement	No	Yes, 2 FOM types	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 2 FOM types
IT	No	Yes, 2 FOM types	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 3 FOM types
Finance & accounting	No	Yes, 2 FOM types	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 2 FOM types
HRM	No	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 1 FOM type	Yes, 2 FOM types
General management	No	Yes, 1 FOM type	Yes, 1 FOM type	No	Yes, 1 FOM type	Yes, 2 FOM types

* Countries included are Chile, China and UK.

Table 3: Foreign operation mode combinations in case companies.

	Company A: Eltek Valere [a]	Company B: Jotun [b]	Company C: Marine Harvest	Company E: REC Group [c]	Company F: Statoil [d]	Company G: Wilhemsen Ships Service [e]
FOM combination within activity	No	Yes	No	Yes	Yes	Yes
FOM combination within country	Yes	Yes	No	Yes	Yes	Yes
FOM combination within activity and country	No	Yes	No	Yes	Yes	Yes
Company's FOM combination profile	Limited use (only China)	Moderate use; increasing over time (6 unique country-activity FOM combinations in 2004, 10 in 2008)	No use	Limited use (only USA); increasing over time (1 unique country-activity FOM combination in 2004, 2 in 2008)	Moderate use (mainly UK); increasing over time (1 unique country-activity FOM combination in 2004, 2 in 2008)	Extensive use; slightly increasing over time (11 unique country-activity FOM combinations in 2004, 13 in 2008)

[a] WOS sales company and production subcontracting in China
[b] Both WOS and JV in China for many activities; both WOS and distributor contracts for logistics, marketing and after-sales services in USA
[c] Both WOS and distributor contracts for marketing and sales in USA; both WOS and non-equity strategic alliance in R&D in USA
[d] WOS and JV used simultaneously in production and logistics, and WOS and contracts simultaneously in marketing and sales; FOM combinations especially prevalent in UK
[e] FOM combinations across all activities and countries

Table 4: Reasons provided by companies for their FOM combinations.

Company A: Eltek Valere [a]	Company B: Jotun [b]	Company C: Marine Harvest	Company E: REC Group [c]	Company F: Statoil [d]	Company G: Wilhemsen Ships Service [e]
China: Task differentiation	China: governmental restrictions UK and USA: adaption to local market requirements	Not applicable	USA: product additions	China: task differentiation UK: operations in several, but separate oil fields	General: product differentiation and local regulations

[a] WOS sales company and production subcontracting in China
[b] Both WOS and JV in China for many activities; both WOS and distributor contracts for logistics, marketing and after-sales services in USA
[c] Both WOS and distributor contracts for marketing and sales in USA; both WOS and non-equity strategic alliance in R&D in USA
[d] WOS and JV used simultaneously in production and logistics, and WOS and contracts simultaneously in marketing and sales; FOM combinations especially prevalent in UK
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